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British tobacco company expands business in U.S.

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LOUISVILLE, Ky. (AP) -- British company Imperial Tobacco Group PLC successfully plugged a giant gap in its global business, entering the U.S. cigarette market with its acquisition of Kentucky-based Commonwealth Brands in a \$1.9 billion deal completed this week.

The deal allows Imperial, one of the world's biggest tobacco companies, to inherit the fourth-largest cigarette producer in the United States. Commonwealth Brands, maker of discount brands USA Gold and Sonoma, has an estimated 3.7 percent of the \$376 billion U.S. market.

Imperial Chief Executive Gareth Davis said this week that his company plans to boost profit from its



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new acquisition by launching additional brands.

"We will absolutely be investing to grow and develop the business there," Imperial spokesman Alex Parsons said in a phone interview Wednesday.

Imperial bought Commonwealth Brands from Bowling Green, Ky.,-based Houchens Industries Inc., whose other businesses include Food Giant, IGA, Piggly Wiggly and Mad Butcher food stores. Houchens acquired Commonwealth Brands, the trading name of CBHC Inc., in 2001.

Jimmie Gipson, chairman of privately owned Houchens, said the deal with Imperial pairs Commonwealth Brands with a company that "has a tradition of success in the tobacco industry and the resources to continue its growth."

"The sale generates significant value for Houchens' shareholders and will provide capital to expand our existing businesses and to seek new business opportunities," Gipson said.

Commonwealth Brands is based in Bowling Green in south-central Kentucky, and Parsons said Imperial has no plans to move those operations. The senior management team at Commonwealth Brands will stay on to help chart Imperial's course in the United States, Parsons said.

Commonwealth Brands has a work force of about 720 and a factory in Reidsville, N.C., that makes about

Parsons said Imperial had resisted the U.S. market because of the "litigation climate" - in which a number of multimillion dollar lawsuits were filed against the tobacco industry.

"That has eased considerably in recent years," Parsons said.

As a result, Imperial decided "the timing was right" to enter the American cigarette market, he said. The British company already had a U.S. presence through its New Jersey-based Robert Burton Associates subsidiary that sells cigarette papers and tubes.

Imperial's expansion to the United States got the attention of its competitors.

14 billion cigarettes a year. Its other brands are Montclair, Malibu and Riviera.

At the time the Commonwealth Brands sale was announced in February, Reynolds American Inc. chairman Susan M. Ivey called it a "good strategic buy" by Imperial. "Commonwealth has always been a strong competitor in that low-value market," Ivey said at the time.

North Carolina-based Reynolds American is the nation's second-largest tobacco company behind industry leader Philip Morris USA. Reynolds' cigarette brands include Camel, Kool and Pall Mall. Philip Morris USA's brands include Marlboro, Virginia Slims, Parliament and Basic.





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The Bristol, England-based Imperial, whose brands include Regal, Lambert & Butler and Davidoff, sold 187 billion cigarettes in more than 130 countries in the fiscal year ending last September - a 7 percent sales increase from the previous year. Davis previously said Imperial expects the U.S. to become its third-largest market behind Britain and Germany.

"We want to grow and develop the business, and there are some significant blank spots on our global footprint," Parsons said. "And the U.S. was obviously a key one to look at."

He said Imperial views the United States as "an extremely profitable market."

Parsons, citing competitive reasons, declined to offer hints on whether Imperial's U.S. strategy will focus on discount brands or introduction of its premium cigarettes.

"We don't want to show our hand," he said.

When the deal was announced in February, Imperial said the net cost of the acquisition was \$1.5 billion when including some tax benefits.

Deutsche Bank Securities Inc. analyst Marc Greenberg said Commonwealth Brands becomes a "different animal" with Imperial's backing. Still, he was skeptical that "this great big, strong competitor is going to come in and make a big splash in the U.S. market."

Greenberg said Commonwealth Brands has enjoyed growth in the discount segment. Introducing premium brands in the U.S., however, would be a challenge for Imperial, he said.

"If you were going to pick on a brand competitor in a category, I don't think you would choose Marlboro in cigarettes, or Camel for that matter," Greenberg said.

Greenberg said Imperial's entry into the American market will have little or no immediate impact on the industry leaders, but said they'll keep an eye on the new U.S. player.

"It's a scale player in their marketplace with significant capital," he said. "So they're smart and they won't ignore that."

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